



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2017 Biennium

Bill #	HB0266	Title:	Referendum to lower individual income tax rates
Primary Sponsor:	Schwaderer, Nicholas	Status:	As Introduced

- | | | |
|---|---|--|
| <input type="checkbox"/> Significant Local Gov Impact | <input type="checkbox"/> Needs to be included in HB 2 | <input type="checkbox"/> Technical Concerns |
| <input type="checkbox"/> Included in the Executive Budget | <input checked="" type="checkbox"/> Significant Long-Term Impacts | <input type="checkbox"/> Dedicated Revenue Form Attached |

FISCAL SUMMARY

	<u>FY 2016 Difference</u>	<u>FY 2017 Difference</u>	<u>FY 2018 Difference</u>	<u>FY 2019 Difference</u>
Expenditures:				
General Fund	\$0	\$0	\$0	\$0
Other	\$0	\$28,069	\$0	\$0
Revenue:				
General Fund	\$0	(\$69,785,000)	(\$141,904,000)	(\$112,009,000)
Other	\$0	\$0	\$0	\$0
Net Impact-General Fund Balance:	<u>\$0</u>	<u>(\$69,785,000)</u>	<u>(\$141,904,000)</u>	<u>(\$112,009,000)</u>

Description of fiscal impact: This bill would authorize a referendum that would ask voters to approve lowering each of the income tax bracket tax rates by 10%, beginning in 2017. If passed, this would reduce income tax revenue by between 9.1% and 9.5% per year.

FISCAL ANALYSIS

Assumptions:

Department of Revenue

1. If approved by the electorate in the 2016 election, this bill would lower each of the income tax bracket tax rates by 10%. The change would take effect at the beginning of CY 2017.
2. The income tax forecasting model was run with the change in rates. The modified model produced the following changes in calendar year tax liability:

<u>Calendar Year Tax Liability</u>	
(millions \$)	
2017	-104.678 million
2018	-109.345 million
2019	-114.678 million

3. Half of the reduction in tax liability for CY 2017 would occur in FY 2017. The department would produce new withholding tables to apply beginning January 1, 2017. However, the last time that rates changed, in 2005, it appeared to take several months before all employers were using the new withholding tables. Some taxpayers who make estimated payments would immediately adjust their estimated payments to reflect the new rates, but others would take time to make the adjustment. Taxpayers who adjust their estimated payments or have their withholding adjusted would pay less in the second half of FY 2017. Taxpayers whose payments are not adjusted would over-pay in the second half of FY 2017 and would receive larger refunds or make smaller payments with the TY 2017 returns they file in FY 2018. For these reasons, it is assumed that two-thirds of the revenue reduction expected for the second half of FY 2017 will occur in FY 2017 through lower payments and one-third will occur in FY 2018 through larger refunds and smaller payments with returns. The revenue reduction for FY 2017 would be \$69.785 million.
4. In FY 2018, revenue will be reduced by half the tax liability reduction for calendar year 2017 and half the tax liability reduction for calendar year 2018. Revenue would also be reduced by the larger refunds and lower payments with returns for taxpayers who did not have payments adjusted to reflect the new rates in 2017. The total revenue reduction for FY 2018 would be \$141.904 million.
5. In FY 2019, the revenue reduction would be half the liability reduction for calendar year 2018 and half the liability reduction for calendar year 2019, or \$112.009 million.
6. The following table shows general fund revenue reductions by fiscal year.

Change in General Fund Revenue			
(\$ million)			
FY 2016	FY 2017	FY 2018	FY 2019
0.000	-69.785	-141.904	-112.009

7. The department would make changes to tax forms and instructions as part of the normal annual update process with no additional costs.

Secretary of State

8. The total costs for ballots, printing, programming and other associated costs is estimated to be \$505,254 which is divided by the average number of contests per ballot, 18 contests for an average cost of \$28,069
9. The price per initiative may vary depending on the total number of contests on the ballot in a given year and the total cost of each election.

	<u>FY 2016</u> <u>Difference</u>	<u>FY 2017</u> <u>Difference</u>	<u>FY 2018</u> <u>Difference</u>	<u>FY 2019</u> <u>Difference</u>
<u>Fiscal Impact:</u>				
Secretary of State				
<u>Expenditures:</u>				
Operating Expenses	\$0	\$28,069	\$0	\$0
TOTAL Expenditures	\$0	\$28,069	\$0	\$0
<u>Funding of Expenditures:</u>				
General Fund (01)	\$0	\$0	\$0	\$0
Other	\$0	\$28,069	\$0	\$0
TOTAL Funding of Exp.	\$0	\$28,069	\$0	\$0
Department of Revenue				
<u>Revenues:</u>				
General Fund (01)	\$0	(\$69,785,000)	(\$141,904,000)	(\$112,009,000)
TOTAL Revenue	\$0	(\$69,785,000)	(\$141,904,000)	(\$112,009,000)
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>				
General Fund (01)	\$0	(\$69,785,000)	(\$141,904,000)	(\$112,009,000)

Long-Term Impacts:

1. If the referendum in this bill passes, income tax revenue would be reduced by between 9.1% and 9.5% per year.

*Sponsor's Initials*_____
*Date*_____
*Budget Director's Initials*_____
Date